

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY KUWAIT IMMEDIATE

C O N F I D E N T I A L STATE 158010

FOR TREASURY SECRETARY SIMON

FOLLOWING SENT ACTION TRIPOLI, INFO JIDDA, JULY 20, FROM SECSTATE
RPTD TO YOU:

QUOTE C O N F I D E N T I A L STATE 158010

E909 11652: GDS

TAGS: ENRG, LY

SUBJECT: HIGH OIL PRICES

REF: STATE 117824

JIDDA PASS SECRETARY SIMON

1. WITH IMPROVEMENT OF POLITICAL CLIMATE IN MIDDLE EAST, WE BELIEVE THAT THIS IS APPROPRIATE TIME TO FOSTER THOSE POSITIVE ELEMENTS IN OUR RELATIONS WITH THE MAJOR NORTH AFRICAN AND MIDDLE EASTERN OIL PRODUCING STATES WHICH ARE BASED ON A COMMUNITY OF INTERESTS IN MANY AREAS.
 2. HOWEVER, WE ARE CONCERNED THAT FURTHER PROGRESS IN THIS DIRECTION MAY BE INHIBITED BY THE CURRENT OPEC POLICY ON OIL PRICING. IT IS OUR CONVICTION THAT WORLD OIL PRICES ARE MUCH TOO HIGH. THEY ARE STRAINING WORLD ECONOMY AND RETARDING ITS GROWTH. MAINTENANCE OF CURRENT PRICE LEVELS COULD CAUSE SERIOUS AND LASTING DISLOCATIONS AND LEAD TO VIRTUAL ECONOMIC COLLAPSE OF SOME LDC'S. ON BASIS OF CURRENT MARKET CONDITIONS, WE BELIEVE OIL PRICES SHOULD BE FALLING RATHER THAN RISING, AND CONSIDER RECENT OPEC
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DECISION TO RAISE ROYALTIES BY TWO PERCENT AS UNWARRANTED

EVEN THOUGH IT WAS SMALL IN COMPARISON TO PRIOR INCREASES.

3. WE ARE STRONGLY OPPOSED TO ANY FURTHER OIL PRICE INCREASE. HOWEVER, IN REMONSTRATING AGAINST THESE PRICES, WE MUST AT SAME TIME TAKE INTO CONSIDERATION OUR OVERALL COMMON INTERESTS WITH PRODUCER STATES. IN MAKING OUR

DEMARCHES TO MOST PRODUCER GOVERNMENTS, WE ARE STRESSING THE NEW COOPERATIVE FINANCIAL, ECONOMIC, AND INDUSTRIAL BILATERAL RELATIONSHIPS WHICH WE ARE DEVELOPING WITH SOME OF THESE COUNTRIES, IN THE HOPE THAT THIS WILL MODERATE THEIR DEMONSTRATED SENSITIVITIES TO DISCUSSIONS OF PRICE AND PRODUCTION POLICIES.

4. IN THE CASE OF LIBYA, WE RECOGNIZE THAT THIS TACTIC HAS SO FAR MET WITH LITTLE SUCCESS AND THAT WE ARE, IN FACT, DEALING WITH A COUNTRY MORE INCLINED TO DISCOURAGE ANY IMPROVEMENT IN RELATIONS BETWEEN THE U.E. AND THE ARAB WORLD AS LONG AS THE MIDDLE EAST CONTROVERSY PERSISTS. HOWEVER, WE STILL HAVE A MUTUAL INTEREST WITH LIBYA IN THE EXPLORATION FOR AND EXPORT OF OIL THROUGH U.S. COMPANIES. OUR APPROACH IN TRIPOLI SHOULD, THEREFORE, CONCENTRATE ON THE ADVERSE EFFECTS OF HIGH OIL PRICES ON THE WORLD ECONOMY AND ESPECIALLY ON THE LDC'S, AND HIGHLIGHT THE THREAT TO LIBYA'S LONG-TERO POTENTIAL EARNINGS FROM HYDROCARBONS OCCASIONED BY BUYERS' DECREASED PURCHASING POWER AND ACCELERATED SEARCH FOR ENERGY ALTERNATIVES.

5. ZOS SHOULD SEEKAN EARLY OPPORTUNITY WITH APPROPRIATE SENIOR OFFICIALS IN YOUR HOST GOVERNMENT TO EMPHASIZE OUR VIEWS ON OIL PRICES AND TO ENCOURAGE THEM NOT TO RAISE PRICES FURTHER. IN MAKING YOUR REPRESENTATION, YOU SHOULD DRAW ON THE FOLLOWING TALKING POINTS:

-- I HAVE BEEN INSTRUCTED TO BRING TO THE ATTENTION OF YOUR GOVERNMENT, OY OOVERNMENT'S DEEP CONCERN WITH OIL PRICE DEVELOPMENTS. OUR CONCERN IS BEING EXPRESSED TO OTHER OPEC GOVERNMENTS AS WELL AS YOURS.

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-- WE BELIEVE RECENT TWO PERCENT OPEC INCREASE --
ALTHOUGH SMALL IN COMPARISON TO PRIOR INCREASES -- WAS
UNWARRANTED AND WILL FURTHER STRAIN WORLD ECONOMY.

-- THE QUESTION OF PRODUCTION IS, OF COURSE, CLOSELY
RELATED TO THAT OF PRICING. WHILE WE ARE AWARE OF SENTI-
OENTS AND PRESSURES IN A NUMBER OF PRODUCER STATES TO
REDUCE PRODUCTION FARTHER, WE BELIEVE THESE PRESSURES

SHOULD BE RESISTED IN THE INTERESTS OF WORLD ECONOMIC STABILITY.

-- THE DIRECT AND INDIRECT BURDEN OF HIGH OIL PRICES ON THE WORLD'S CONSUMERS IS A HEAVY ONE. THE PLIGHT OF DEVELOPING CONSUMER COUNTRIES IS PRESSING; IN SOME CASES, INCREASED EXPENDITURES FOR ENERGY ARE SURPASSING THEIR TOTAL AID RECEIPTS AND COULD LEAD TO VIRTUAL ECONOMIC COLLAPSE.

-- WE BELIEVE CURRENT HIGH PRICE LEVELS ARE IN THE INTEREST OF NEITHER CONSUMERS NOR PRODUCERS. IN THE SHORT RUN, THEY HURT CONSUMERS. BUT IN THE LONG RUN, PRODUCERS WILL LOSE BECAUSE MAINTENANCE OF HIGH PRICES WILL STIMULATE EVER GREATER RESEARCH AND INVESTMENT INTO ALTERNATIVE SOURCES OF ENERGY AND ALTERNATIVES TO ENERGY USE. THE EFFECT WILL BE TO REDUCE THE TOTAL VALUE THE OIL EXPORTERS RECEIVE OVER THE LIFE OF THEIR PRODUCING FIELDS. THE NET RESULT WILL BE DISADVANTAGEOUS TO ALL.

-- IN OUR INTERDEPENDENT WORLD, THE ECONOMIC FUTURES OF ALL COUNTRIES ARE CLOSELY RELATED. ALL NATIONS, PRODUCERS AND CONSUMERS, WILL SUFFER IN A WORLD THAT IS CHARACTER-

ZED BY FALTERING AND FAILING ECONOMIES. WE URGE YOUR GOVERNMENT TO RECONSIDER ITS PRICING POLICY IN GENERAL. IN PARTICULAR, WE HOPE YOU WILL NOT INCREASE PRICES FURTHER AT THIS TIME.

-- A RESOLUTION OF DIFFERING VIEWS ON PRICING AND PRODUCTION QUESTIONS IS URGENT AND ESSENTIAL. HOWEVER, AS BOTH SIDES NOW BEGIN TO WORK OUT THESE DIFFICULT BUT NOT CONFIDENTIAL

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INSOLUBLE PROBLEMS, WE BELIEVE IT IS IN THE INTEREST OF PRODUCERS AND CONSUMERS NOT TO LOSE THEMSELVES IN POLEMICS. IN REALIZATION THAT STABLE SUPPLY AT REASONABLE PRICES IS CRUCIAL TO ANY CONSIDERATION OF ENERGY PROBLEMS, WE HOPE TO ENCOURAGE A DIALOGUE WITH PRODUCER STATES WHICH DOES NOT FOCUS ON OIL PRICES AND PRODUCTION TO THE EXCLUSION OF THE MANY OTHER VERY IMPORTANT ASPECTS OF PRODUCER/CONSUMER RELATIONS.

6. IN REPLY, LOCAL GOVERNMENT OFFICIALS MAY SAY THAT INCREASED OIL PRICES ARE JUSTIFIED TO OFFSET THE HIGHER PRICES THE OIL EXPORTING STATES MUST PAY FOR IMPORTS FROM THE INDUSTRIALIZED COUNTRIES. THEY SHOULD BE REMINDED, HOWEVER, THAT OIL PRICE INCREASES WERE NOT ONLY LARGER BUT MORE ABRUPT AND THEREFORE MORE DISRUPTIVE THAN FOR THOSE

OF ANY OTHER COMMODITY. FURTHERMORE, THE US HAS MOVED

VIGOROUSLY TO COUNTER HIGH PRICES ON ITS OWN AGRICULTURAL EXPORTS BY EXPANDING ACREAGE AND INCREASING PRODUCTION. AS A CONSEQUENCE, ZTEAT PRICES HAVE FALLEN SUBSTANTIALLY FROM EARLIER HIGHS. THE U.S. STEEL INDUSTRY IS CURRENTLY PRODUCING AT FULL CAPACITY.

7. YOU WILL ALSO PROBABLY BE TOLD THAT THE OPEC DECISION TO RAISE ROYALTY OR OTHER TAXES IS DESIGNED TO REDUCE COMPANIES "EBNESS PROFITS" AND NOT RAISE THE COST TO THE CONSUMER. IN FACT, ANY SUCH INCREASE WILL BE PASSED ON. PARAS 4-5 OF STATE 117824, WTICH IS BEING REPEATED TO YOU, DISCUSS HOW OPEC TECHNICIANS ARRIVE AT THE "EXCESS PROFIT" CLAIM AND SHOW THE PRICE INCREASE THAT WOULD RESULT FROM RAISING THE INCOME OR PROFIT TAX RATE. AN INCREASE IN ROYALTY PAYMENTS WOULD SIMILARLY RAISE THE PRICE OF OIL TO THE COMPANIES AND ULTIMATELY TO THE CONSUMERS.

8. FYI: IN VIEW OF ADAMANT POSITION TAKE BY TIBYA AND MOST OTHER OPEC MEMBERS IN FAVOR OF INCREASED OIL PRICES, WE DO NOT EXPECT HOST GOVERNMENT TO RESPOND TO YOUR DEMARCHE BY IMMEDIATELY MODIFYING ITS POLICY. HOWEVER, WE BELIEVE IT IS IMPORTANT FOR LARG TO UNDER-CONFIDENTIAL

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STAND CLEARLY THE VIEWPOINT OF THE USG, TO REALIZE THAT WE ARE SERIOUSLY CONCERNED ABOUT THE WORLDWIDE ECONOMIC DISLOCATION WHICH HAS RESULTED FROO OIL PRICING POLICIES, AND TO BE INFORMED THAT WE DO NOT BELIEVE FURTHER PRICE INCREASES CAN BE JUSTIFIED UNDER THE PRESENT CONDITIONS.

9. PLEASE REPORT THE REACTION OF LARG GOVERNMENT TO OUR DEMARCHE. INGERSOLL UNQUOTE. KISSINGER

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